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PROFIT-SHARING.

THE theory of wages is that competition will adjust them so as to make a perfectly fair division of products, not only between employer and the wage-earners, but also between the producers and the consumers. But among the many elements which come in to disturb this simple proposition, there are two which totally upset its equilibrium,—the excessive storing up of supplies for future use, and the combination of producers to regulate supply and prices. The former we know as over-production, the latter as pools. When we have accumulated a surplus in the hands of manufacturers and traders, we stop the competition for labor, and pay it our own price or stop it entirely. In prosperous times we pool our business and raise selling prices without raising wages. The enhanced prices are an indirect reduction of wages. The results of this process are to bring on periodical depressions in trade, fix wages which barely enable the workman to live when he has work, make him a tramp when he has none, and finally drive wage-workers into counter combinations for self-protection. Strikes, lockouts, violence, and class antagonism are the symptoms which urge upon our notice this social disease.

It is not necessary to elaborate the process by which our complex system of factory production and commercial distribution has forced the great body of mankind into working for fixed wages. The advantages of aggregated capital and facilities under a single arbitrary management, controlling a highly specialized body of workmen, is so great, that a single mechanic working on his own account cannot compete. Machinery has driven hand-shops out of existence.

This condition implies that a considerable accumulation is already in the possession of the factory principal, and that wages are paid out of the capital already in hand, instead of the product itself. It follows from this statement that workmen are de-

pendent on the capitalist class for the opportunity to earn a living. If then, by tacit understanding or express agreement, employers fix certain rates of wages which represent only a part of the product, the workmen must accept.

Capital is generated and intrenched. It has supplies to withstand a siege. It has a community of interest which insures concurrent action. By limiting wages to an amount considerably short of the whole product, accumulation of surplus proceeds at a rapid rate until it must be curtailed. Consumption is regulated by the ability to buy. The commercial system is an extended and interdependent one. Wages being relatively low, and many consumers being idle, demand is restricted. The depression is cumulative.

We thus trace depressions in trade directly to the unelastic wages which at one time reserve a large surplus of the factory product, and subsequently curtail production until the surplus is disposed of. Carrying the examination farther, we find that the surplus has been in part diverted to unproductive investments, or to excessive capacity in certain lines of manufacture. The trouble lies in the rigidity of the wages. If these bore an elastic relation to the quantity produced and the market value of the product, the advantages of machinery and division of labor in large factories would result in affording a much larger share of comfort and leisure, and would at the same time afford continuous work and uniform demand. The economic effect is very similar to that of slave labor, with the added difficulty of uncertainty on either side.

In addition to wastefulness of undue accumulation which falls into unproductive channels, and the wastefulness of great numbers thrown wholly out of productive employment, it is manifest also that work will not be so energetic or so painstaking when done for a fixed price per day as if it were done for a fixed proportion of the value produced. This is fully realized by the economy which all manufacturers recognize in piece-work as compared with day wages.

Mechanics object to piece-work on the ground that employers take advantage of it to enforce a more inflexible minimum of wages; but that the system yields far greater efficiency is well known. The proof is clear that a man working for himself will be the more efficient. The principle involved is precisely the

same as that which makes free labor more valuable per man than slave labor.

Simple co-operation, by which every participant in work should participate equally in the product, would appear to be the natural remedy. But this ignores the wide divergence there is in qualifications, and ignores the value and self assertion of energetic spirits, whose exceptional ability, or industry, or energy enable them to earn more, and by their tact to get more, of the product than their fellows. Co-operation, with graded wages and graded interests, has met with measurable success. It has much to recommend it. It labors, however, under two serious difficulties—lack of capital, which is required to afford competing facilities, and lack of concentrated authority in management. It is probably true that autocratic government, when its head is able and devoted to its task, is more efficient than a representative government. Upon this head Herbert Spencer has made an elaborate and conclusive argument in favor of representative government for doing that which he thinks government should do—securing justice; but in favor of an autocratic form for doing that which he believes government should not do—the conduct of community business.

The administration by one permanent head is a necessity, if the best results in manufacturing are to be attained. Such heads, as a rule, will be an evolution of the fittest. They are most frequently drawn from the rank and file, promoted by reason of adaptability to their station. The relation of master and servant appears historically to be itself an evolution: first, as slave, without rights; then as serf, with certain personal, but no property, rights; and, at the present time, wage-workers, nominally free, but in reality dependent.

Differentiation into classes as master and man is a natural one in any state of civilization yet attained. It cannot be alleged that in any stage of this development the relation has been one of harmonious interests. The innate disposition of every individual to look primarily to his own advantage leads logically to antagonism. It is true this egoism is modified very largely by enlightened altruism; but in the main issues the man who pays wages and he who draws them will each take the largest share he can get. The highest advantage would evidently accrue if a labor system were devised, whereby these adverse interests should become identified.

Such a system should be evolved from that which has preceded it. It should retain the strength and coherence of a single head and authority, the recognition of superior ability, and of the main-springs of human motives. It should discard as unworthy of our civilization the commercial maxim of supply and demand, as applied to human beings in common with goods and chattels. It should build up an ambitious self-interest by enabling every man to benefit by his exertions and good conduct.

Such a system would derive a direct and important advantage by reason of its immunity from strikes and forced stoppages from dissension. It would obviate depressions in trade by paying out to those who would legitimately consume it the surplus remaining after allowing a proper accumulation of productive capital.

Profit-sharing, in the hands of men who properly comprehend the duties which pertain to power, seems to meet the requirements suggested. Under this plan it is assumed that the capital invested has been earned by those who own it. It is therefore entitled to interest at current rate as its wages. The customary salaries, wages, expenses, and interest having been paid, the remainder is a surplus to be divided ratably between those who have produced it. The wages paid are assumed to be adjusted to the relative value of each person concerned. By adding together the entire amount of wages paid for the fiscal year, including interest as the wages to capital, the per cent. of profit is ascertained, and by applying this percentage to the wages of each man his share is arrived at.

If it is objected that in a new country like ours there is required a larger accretion to productive capital than mere interest, and that it would impair the development of an enterprise if so large a portion of its earnings were at once distributed, the division may be made in certificates in lieu of cash. These certificates should be placed on a par with the initial capital, having all its advantages and subject to all its hazard, thus adding a new bond and increased incentive. The plan may diverge materially from the formula here given without impairing its efficiency. The division may be made upon wages and capital instead of wages and interest, thus giving a larger share to the owner of the capital, or a fixed portion of the profits may be given the managers, and the remainder divided. The beneficiaries may be classified as to length of service and special faithfulness.

By reason of the advantages offered, and this premium for continuity of service, there would be evolved a force comprising the best of their class. The shiftless would be displaced by the thrifty, who appreciated such benefits. The superior quality of men, their direct interest in producing the most and the best work, the immunity from strikes and stoppages, would give such a factory advantages which would more than compensate in dollars for the dividends, not to mention its important social and ethical function.

The plan is applied with equal facility to every class of business, as it rests automatically upon conditions already in effect. There is no change in management, none in ownership, nor in wages. It is not new and visionary. It has been in use for many years in great iron foundries, in piano works, and in house building trades in France and Germany. In collieries and woolen mills in England and in this country, there are to-day a considerable number of factories, large and small, employing profit-sharing in some form.

The most developed example of profit-sharing is that of Mons. Godin, at Guise, France. Godin is a student and writer upon sociology as well as a successful manufacturer. He employs about 1,000 men in making stoves. Forty-five years ago he started in a small shop, now standing in the centre of the present extensive grounds. About fifteen years ago, acting as well upon social as upon commercial grounds, he adopted the plan of sharing profits with all his permanent workmen.

At the same time he began organizing a complete society of those connected with his works. He erected a commodious apartment house, capable of housing comfortably one hundred families, and provided with ample corridors, stairways, and a covered court. Within it were his own apartments, his newspaper and printing office, a co-operative store, and adjacent to it was a day nursery for children, a gymnasium, amateur theatre, school, play grounds, and park. This "Familiestiere" he placed in charge of a board of control, elected by the occupants to administer all its joint affairs, but leaving each family entirely independent, rent being charged according to the quality of the suites, and at such rate as to pay expenses and interest on capital. Subsequently, he erected two similar flats, and some smaller ones. On the writer's visit, he found an unusual degree of comfort, cleanliness, and brightness.

Godin organized his entire force into four classes, the first consisting of himself and the heads of departments, who constitute the Board of Directors, the other three classes being graded by length and value of service. After paying usual salaries and wages and interest on capital at five per cent., twenty-five per cent. of the profits goes to the first class, of which the Director General, Godin, receives twelve, a certain portion goes to educational, provident and other community objects, and the remainder, about fifty per cent., is divided upon the total of wages and interest fund; the three classes of workmen receiving in the proportion of 2, 1½, and 1.

Fifteen years have yielded dividends on wages amounting to \$650,000, most of which the workmen have invested in shares of the corporation.

Two per cent. of the profits is reserved as a premium fund for inventions and labor-saving improvements.

Whatever may be the state of trade, Godin can keep in full blast. He has the best appliances, the highest organization, and the best men. If the dullness of trade forces others to close, Godin can make such prices as will secure orders, because his men are active partners, and will rather keep at work than stop.

An unsuccessful experiment was that of the Messrs. Briggs, owners of an English colliery, employing several thousand men. They had been involved in strikes, and profit-sharing was resorted to as a compromise. Bad blood and distrust existed. The Briggs were conscientious men, but they proposed profit-sharing rather as an expedient than as a principle. It happened that the price of coal advanced abnormally. Enormous profits were made. Their men were of the most ignorant, and fully identified with Unions. It was charged that undue scaling down of the plant was resorted to for the reduction of dividends, and when in the midst of dazzling prosperity a great miners' strike was organized in that part of England, the Briggs men yielded to the persuasions of their less fortunate fellows and struck. This ended the experiment, but in a published letter the surviving partner states that he believes under ordinary conditions the plan is practicable.

At the beginning of last year one of the manufacturing corporations under my control issued the following announcement to its employés :

"Beginning with January 1st, 1886, we propose to divide the profits made in

our business upon the following basis : After allowing seven per cent. interest on actual capital invested, the remainder will be divided *pro rata* upon the total amount of wages paid and capital employed. Each employé will get his proportion according to the amount of wages paid him for the year. This will apply to all persons who have served the company six months or over, within the year, and have not been discharged for misconduct. You may select from among yourselves a custodian to hold an agreement of the foregoing purport, and he may examine the closing of our books at the end of the year." * * *

The early half of the year was especially full of agitation and strikes. When the eight-hour movement was in progress, we, in concert with kindred manufacturers, adopted fifty-five hours as a week's work, at full pay. Finding later that the movement had failed, and our competitors had not adhered to the reduced hours, our men unanimously requested a return to full hours.

At the close of the year we declared a dividend of five per cent. on wages, and left it optional to draw this in cash or in certificates entitling the holder to the same rate of interest and dividend for the coming year which our own capital might receive. Less than one-tenth elected to take cash.

For the current year we place one-tenth of the profits in a permanent provident fund for disabled employés, and one-tenth in a surplus fund to meet possible future reverses. Twenty-five per cent. additional dividend is paid to such men as shall have been in continuous service as much as eighteen months at the close of the year, and shall be the holders of certificates for their last year's dividend, this being a premium on permanence and thrift.

We have taken pains to simplify every arrangement and avoid the possibility of suspicion. We announced our plan in the briefest terms ; imposed no contra conditions, and delivered to a custodian selected by the men a legal contract embodying the proposition made. The plan has worked to the satisfaction of ourselves and our men in the fullest degree.

N. O. NELSON.